

PAYDAY  
LENDING  
REPORT

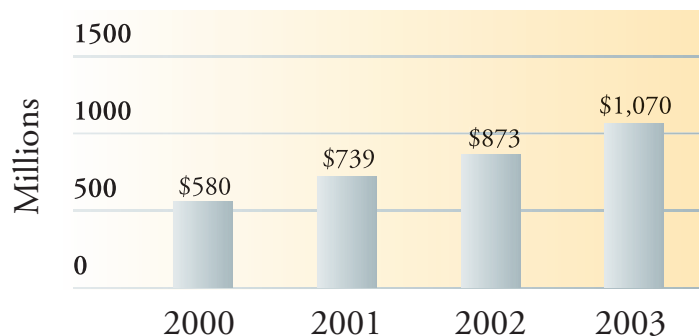
Statistics & Trends  
for 2003



The purpose of this report on the Washington payday lending industry is to educate and inform regulatory bodies overseeing payday lenders and to provide an overview of the state of the industry for policy makers. The payday lending industry is a rapidly growing segment of the financial services industry affecting a large and varied consumer base.

The size of the market has **grown 84%**  
 in the last three years (2000 to 2003),  
 representing **\$1,069,695,069**  
 in payday loans for the year of 2003.

WASHINGTON PAYDAY LENDERS	2000	2001	2002	2003
Companies	90	96	110	124
Branch Offices	287	286	317	378
Small Loans Made During Period	1,832,782	2,186,333	2,337,359	2,983,477
Total Amount of Small Loans Made During Period	\$580,535,734	\$739,540,654	\$873,339,989	\$1,069,695,069



**SMALL LOANS MADE BY PAYDAY LENDERS  
 IN WASHINGTON**



This report is the Department's first attempt to capture detailed transaction information in the Washington payday lending industry. Four large payday loan companies were included in this study representing approximately 55% of the payday lending volume (calculated by total dollar amount of loans) in Washington for the year 2003.

In these pages you will find the following aggregate information:

- Payday Loan Analysis: the average payday loan amount and the average loan fee amount for the four companies sampled.
- Average Length of Payday Loan Term: the number of loans made for specific lending time periods in increments of days, and the average number of days for a payday loan in 2003.
- Borrowing Frequency: the number of times individual borrowers obtained loans during the calendar year.
- Short-Term Credit Cost Comparison: payday loans compared with other credit products.

### PAYDAY LOAN ANALYSIS: 2003

REPRESENTS APPROXIMATELY 55% OF STATE PAYDAY LENDING MARKET

Volume of Payday Loans	\$587,554,373.00
The Number of Payday Loans	1,553,244
Average Payday Loan Amount	\$378.28
Total Payday Loan Fees	\$76,436,106.50
The Number of Payday Loans	1,553,244
Average Payday Loan Fee	\$49.21

### AVERAGE LENGTH OF PAYDAY LOAN TERM

REPRESENTS APPROXIMATELY 55% OF STATE PAYDAY LENDING MARKET

1-7 Days	9.11 %
8-14 Days	41.21 %
15-21 Days	39.67 %
22-31 Days	7.49 %
32-More Days	2.52 %

Average Length of Payday Loan	17.9 Days
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In 2003, nearly three million payday loans were made in Washington.

That's **one and a half loans** for  
**every state resident** 16 years and older.

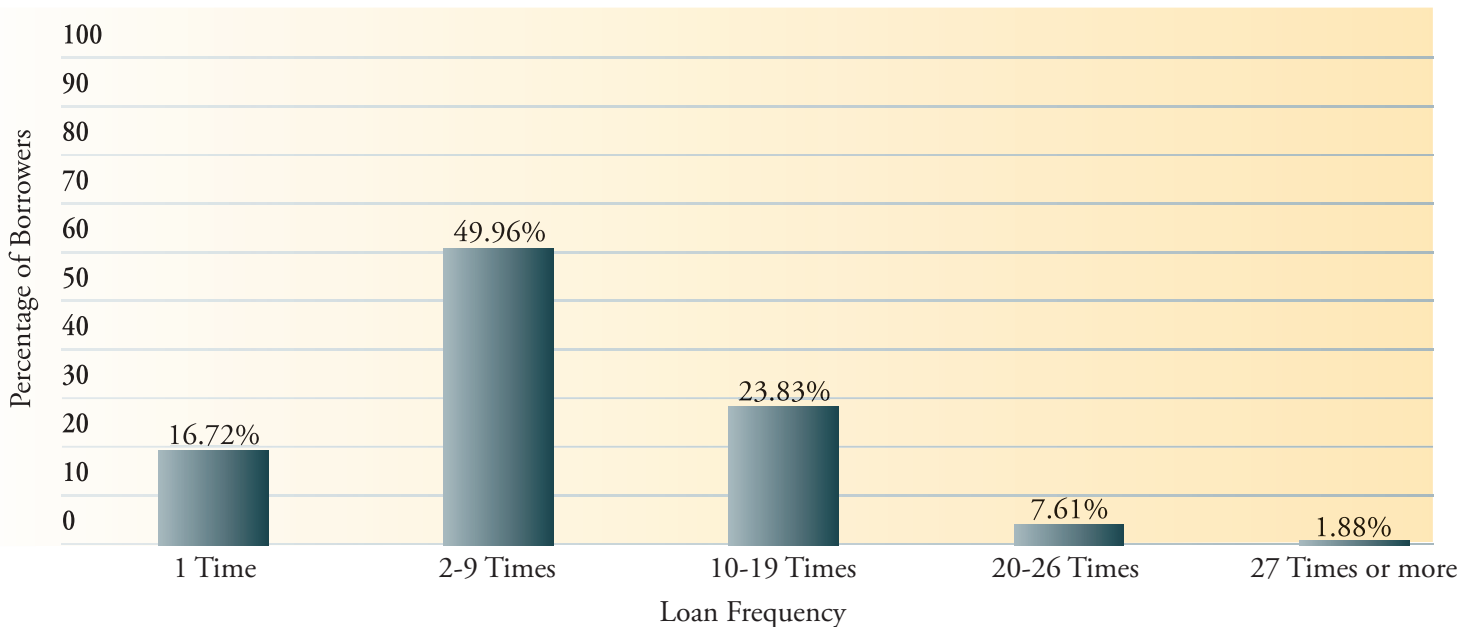
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# BORROWING & LOAN

## Frequency for 2003

### BORROWING FREQUENCY: 2003

REPRESENTS APPROXIMATELY 55% OF STATE PAYDAY LENDING MARKET



### LOAN FREQUENCY: 2003

REPRESENTS APPROXIMATELY 55% OF STATE PAYDAY LENDING MARKET

Annual Loan Frequency	Total Borrowers	Percentage	Total Number Loans	Percentage
1 Time	32,454	16.72%	32,454	2.09%
2-9 Times	96,968	49.96%	459,663	29.60%
10-19 Times	46,251	23.83%	625,140	40.25%
20-26 Times	14,775	7.61%	337,383	21.71%
27 Times or more	3,652	1.88%	98,604	6.35%
<b>TOTAL:</b>	<b>194,100</b>	<b>100%</b>	<b>1,553,244</b>	<b>100%</b>

## LOAN FREQUENCY: 2003

REPRESENTS APPROXIMATELY 55% OF STATE PAYDAY LENDING MARKET

Annual Loan Frequency	Total Borrowers	Percentage of Total Borrowers	Total Number Loans	Percentage of Total Loan
1 Time	32,454	16.72%	32,454	2.09%
2 Times	20,967	10.80%	41,934	2.70%
3 Times	15,894	8.19%	47,682	3.07%
4 Times	13,424	6.92%	53,696	3.46%
5 Times	11,579	5.97%	57,895	3.73%
6 Times	10,312	5.31%	61,872	3.98%
7 Times	9,178	4.73%	64,246	4.14%
8 Times	8,188	4.22%	65,504	4.22%
9 Times	7,426	3.83%	66,834	4.30%
10 Times	6,828	3.52%	68,280	4.40%
11 Times	6,608	3.40%	72,688	4.68%
12 Times	7,443	3.83%	89,316	5.75%
13 Times	5,207	2.68%	67,691	4.36%
14 Times	4,290	2.21%	60,060	3.87%
15 Times	3,785	1.95%	56,775	3.66%
16 Times	3,410	1.76%	54,560	3.51%
17 Times	3,145	1.62%	53,465	3.44%
18 Times	2,860	1.47%	51,480	3.31%
19 Times	2,675	1.38%	50,825	3.27%
20 Times	2,393	1.23%	47,860	3.08%
21 Times	2,286	1.18%	48,006	3.09%
22 Times	2,112	1.09%	46,464	2.99%
23 Times	2,048	1.06%	47,104	3.03%
24 Times	2,369	1.22%	56,856	3.66%
25 Times	1,649	0.85%	41,225	2.65%
26 Times	1,918	0.99%	49,868	3.21%
27 Times or More	3,652	1.88%	98,604	6.35%
<b>TOTAL:</b>	<b>194,100</b>	<b>100%</b>	<b>1,553,244</b>	<b>100%</b>



This table captures loan frequency data as the number of loans each borrower transacted per year. For example, 20,967 borrowers entered into loan transactions with the lender two times in 2003 for a total of 41,934 loans in this category (20,967 x 2 = 41,934). The data fairly approximates the frequency of loans made to borrowers through the 26 times per year category. However, due to an incorrect assumption that lenders provided no more than 27 loans to one borrower per year, the data may be a conservative representation for the 27+ frequency category. For example, if half of the 3,652 borrowers in the 27+ category actually borrowed 28 times, then the total number of loans made in the 27+ category would be 100,430 rather than 98,604. Therefore, the total of loans from this table cannot be used to reconcile with any other capture of total loans made.

Further, these companies stress that lending practices vary among lenders and this may result in a distortion of data on an aggregated basis. For example, two of the reporting lenders identified a significant amount of their loans as “add-on” amounts to existing loans. While this does not affect the number of loans actually made, the lenders argue that borrowers using add-on loans may appear to be in a long-term cycle of debt, when in reality they are not. For example, a borrower may have the following borrowing scenario:

- Loan 1 on June 1 for \$100 due June 15
- Loan 2 on June 2 for \$100 due June 15
- Loan 3 on June 8 for \$100 due June 15
- Loan 4 on June 10 for \$100 due June 15
- Loan 5 on June 13 for \$100 due June 15

A borrower repeating this cycle every three months will show in the 20 loan frequency category and may give the impression that he/she was in a cycle of loans lasting 40 weeks, or ten months.

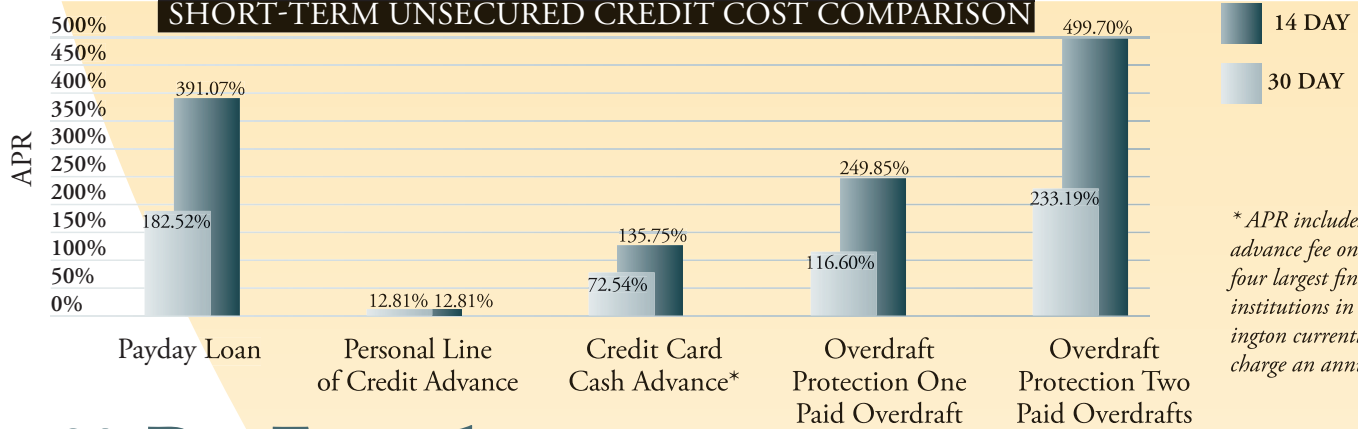
# SHORT-TERM UNSECURED CREDIT COST COMPARISON

## 14-Day Example Short-Term Unsecured Credit Cost Comparison

	Payday Loan	Personal Line of Credit Advance**	Credit Card Cash Advance**	Overdraft Protection One Paid Overdraft**	Overdraft Protection Two Paid Overdrafts**
Amount Borrowed	\$300	\$300	\$300	\$300	\$300
Repayment Period	14 days	14 days	14 days	14 days	14 days
Interest Rate	n/a	12.81%	18.80%	n/a	n/a
Transaction Fee	\$45.00	\$0	\$13.50	\$28.75	\$57.50
Interest Paid	n/a	\$1.47	\$2.16	n/a	n/a
Total Cost	\$45.00	\$1.47	\$15.66	\$28.75	\$57.50
APR	391.07%	12.81%	135.75%	249.85%	499.70%
Basic Features	\$45 per loan based on \$15 fee per \$100 borrowed. Source: RCW 31.45.	Interest rates range from 9.75% to 16.95%. Example assumes an average interest rate. Annual fees range from \$20 to \$36 and are not included in the APR calculation. Minimum line of credit ranges from \$1,000 to \$250,000. Source: Four largest financial institutions in Washington on 12/29/04.	Cash advance fees range from 3% to 4% of cash advance amount with minimum fees ranging from \$5 to \$20. Interest rates range from 14.99% to 20.24%. Example assumes an average cash advance fee and average interest rate. Source: Four largest financial institutions in Washington on 12/29/04.	Overdraft fees range from \$25 to \$33. Average is \$28.75. Example assumes average fee with one overdraft paid. Source: Four largest financial institutions in Washington on 12/29/04. APR equivalent for comparison purposes only; overdraft protection not subject to Truth in Lending Act.	Overdraft fees range from \$25 to \$33. Average is \$28.75. Example assumes average fee with two overdrafts paid. Source: Four largest financial institutions in Washington on 12/29/04. APR equivalent for comparison purposes only; overdraft protection not subject to Truth in Lending Act.
Underwriting Criteria	Minimal underwriting may require review of application information including employment status, recent pay statement, personal references and an open checking account.	Initial setup of line of credit according to standard loan underwriting.* No additional underwriting required after initial approval of credit line. Limited only by applicable daily cash advance limit and credit limit.	Initial setup of line of credit according to standard loan underwriting.* No additional underwriting required after initial approval of credit line. Limited only by applicable daily cash advance limit and credit limit.	No underwriting. Must meet minimum account qualifications such as checking account open for at least 30 days. Subsequent qualifications include satisfactory repayment of prior overdrafts and fees.	No underwriting. Must meet minimum account qualifications such as checking account open for at least 30 days. Subsequent qualifications include satisfactory repayment of prior and fees.
Repayment Options	Example assumes repayment in 14 days. Repayment varies by lender; typically ranging from 10 to 30 days. After fourth consecutive loan, borrower may convert to a payment plan with periods typically between 60 and 90 days.	Example assumes repayment in 14 days. Generally, repayment options include: minimum monthly payments ranging from the greater of 1% to 2.5% of outstanding balance or minimum payment ranging from \$25 to \$50; any payment amount greater than the minimum monthly payment; and payment of outstanding balance.	Example assumes repayment in 14 days. Generally, repayment options include: minimum monthly payments ranging from 1% to 4% of outstanding balance; any payment amount greater than the minimum monthly payment; and payment of outstanding balance.	Example assumes repayment in 14 days. Financial institutions repayment policies range from 10 to 30 days.	Example assumes repayment in 14 days. Financial institutions repayment policies range from 10 to 30 days.
Impact on Credit Score	None - not included in credit history.	Credit score may decline as credit limit is exhausted or if loan goes into non-payment.	Credit score may decline as credit limit is exhausted or if loan goes into non-payment.	None - not included in credit history.	None - not included in credit history.

\* Standard underwriting includes review of credit history, history of employment, debt to income ratio and credit score.  
\*\* Typical practices of four largest financial institutions in Washington on December 29, 2004.

## SHORT-TERM UNSECURED CREDIT COST COMPARISON



\* APR includes cash advance fee only. The four largest financial institutions in Washington currently do not charge an annual fee.

## 30-Day Example Short-Term Unsecured Credit Cost Comparison

	Payday Loan	Personal Line of Credit Advance**	Credit Card Cash Advance**	Overdraft Protection One Paid Overdraft**	Overdraft Protection Two Paid Overdrafts**
<b>Amount Borrowed</b>	\$300	\$300	\$300	\$300	\$300
<b>Repayment Period</b>	30 days	30 days	30 days	30 days	30 days
<b>Interest Rate</b>	n/a	12.81%	18.80%	n/a	n/a
<b>Transaction Fee</b>	\$45.00	\$0	\$13.50	\$28.75	\$57.50
<b>Interest Paid</b>	n/a	\$3.16	\$4.64	n/a	n/a
<b>Total Cost</b>	\$45.00	\$3.16	\$18.14	\$28.75	\$57.50
<b>APR</b>	182.50%	12.81%	72.54%	116.60%	233.19%
<b>Basic Features</b>	\$45 per loan based on \$15 fee per \$100 borrowed. Source: RCW 31.45.	Interest rates range from 9.75% to 16.95%. Example assumes an average interest rate. Annual fees range from \$20 to \$36 and are not included in the APR calculation. Minimum line of credit ranges from \$1,000 to \$250,000. Source: Four largest financial institutions in Washington on 12/29/04.	Cash advance fees range from 3% to 4% of cash advance amount with minimum fees ranging from \$5 to \$20. Interest rates range from 14.99% to 20.24%. Example assumes an average cash advance fee and average interest rate. Source: Four largest financial institutions in Washington on 12/29/04.	Overdraft fees range from \$25 to \$33. Average is \$28.75. Example assumes average fee with one overdraft paid. Source: Four largest financial institutions in Washington on 12/29/04. APR equivalent for comparison purposes only; overdraft protection not subject to Truth in Lending Act.	Overdraft fees range from \$25 to \$33. Average is \$28.75. Example assumes average fee with two overdrafts paid. Source: Four largest financial institutions in Washington on 12/29/04. APR equivalent for comparison purposes only; overdraft protection not subject to Truth in Lending Act.
<b>Underwriting Criteria</b>	Minimal underwriting may require review of application information including employment status, recent pay statement, personal references and an open checking account.	Initial setup of line of credit according to standard loan underwriting.* No additional underwriting required after initial approval of credit line. Limited only by applicable daily cash advance limit and credit limit.	Initial setup of line of credit according to standard loan underwriting.* No additional underwriting required after initial approval of credit line. Limited only by applicable daily cash advance limit and credit limit.	No underwriting. Must meet minimum account qualifications such as checking account open for at least 30 days. Subsequent qualifications include satisfactory repayment of prior overdrafts and fees.	No underwriting. Must meet minimum account qualifications such as checking account open for at least 30 days. Subsequent qualifications include satisfactory repayment of prior and fees.
<b>Repayment Options</b>	Example assumes repayment in 30 days. Repayment varies by lender; typically ranging from 10 to 30 days. After fourth consecutive loan, borrower may convert to a payment plan with periods typically between 60 and 90 days.	Example assumes repayment in 30 days. Generally, repayment options include: minimum monthly payments ranging from the greater of 1% to 2.5% of outstanding balance or minimum payment ranging from \$25 to \$50; any payment amount greater than the minimum monthly payment; and payment of outstanding balance.	Example assumes repayment in 30 days. Generally, repayment options include: minimum monthly payments ranging from 1% to 4% of outstanding balance; any payment amount greater than the minimum monthly payment; and payment of outstanding balance.	Example assumes repayment in 30 days. Financial institutions repayment policies range from 10 to 30 days.	Example assumes repayment in 30 days. Financial institutions repayment policies range from 10 to 30 days.
<b>Impact on Credit Score</b>	None - not included in credit history.	Credit score may decline as credit limit is exhausted or if loan goes into non-payment.	Credit score may decline as credit limit is exhausted or if loan goes into non-payment.	None - not included in credit history.	None - not included in credit history.

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